

CITY OF FAYETTE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

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CITY OF FAYETTE

Officials

Before January 2012

Name	Title	Term Expires
Bill Dohrmann	Mayor	Dec 2011
Doug McReynolds	Mayor Pro Tem	Dec 2011
Braulic Caballero	Mayor Pro tem	Dec 2011
Patty Nefzger	Council Member	Dec 2011
Brian Frana	Council Member	Dec 2011
Jason Rohde	Council Member	Dec 2011

After December 2011

Bill Dohrmann	Mayor	Dec 2013
Doug McReynolds	Mayor Pro Tem	Dec 2013
Braulic Caballero	Mayor Pro tem	Dec 2013
Patty Nefzger	Council Member	Dec 2013
Brian Frana	Council Member	Dec 2013
Todd Sorensen	Council Member	Dec 2013
Christie Dennis	City Coordinator/Clerk	Indefinite
Gerald Hildebrand	Public Works Director	Indefinite
Dusty Dunn	Chief of Police	Indefinite
Jeff Bradley	Treasurer	Indefinite
David James Hansen	Attorney	Indefinite

CITY OF FAYETTE

RFSW Ridihalgh Fuelling
Snitker Weber & Co.
C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.
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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fayette, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fayette's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fayette as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2012 on our consideration of the City of Fayette's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fayette's basic financial statements. Other supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fayette's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages I through III and 21 through 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Ridgely, Fiedling, Lutter, Weber & Co., P.C.

November 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fayette provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. Please consider this information in conjunction with the City's financial statements, which follow.

2012 Financial Highlights

- Revenues of the City's governmental activities decreased by 63%, from fiscal year 2011 to fiscal year 2012. The decrease in revenue is a result of a large donation in excess of \$1.3 million being received in FY 2011.
- Disbursements decreased 16%, or approximately 218,000, in fiscal year 2012 from fiscal year 2011.
- The City's total cash basis net assets increased 6%, \$163,660, from June 30, 2011 to June 20, 2012.

Using this Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the City's Financial Activities

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and yard waste site along with landfill and recycling to reimburse the county for operation of the county transfer station and county recycling program. These activities are financed primarily by user fees.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out to those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and landfill, yard waste & recycling funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliation between the government-wide statement and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased 3% (\$64,949) from a year ago, from \$2,091,955 to \$2,027,006. Reference page 9, Exhibit B, compared to FY 2011 City Annual Report.

The City increased property tax rates from \$14.58 per \$1,000 of taxable valuation in FY 2011 to \$14.91 per \$1,000 of taxable valuation in FY 2012. Property taxes were up 8% (\$26,364) from 2011 amount of \$281,201 to \$307,565 for 2012, excluding tax increment financing (TIF). Taxes raised from TIF decreased from \$45,226 in 2011 to \$5,513 in 2012, an 87% decrease because of less TIF debt to pay for in 2012.

The cost of all governmental activities this year was \$1,141,044. However, as shown in the Statement of Activities and Net Assets on pages 7-8, the amount taxpayers ultimately financed for these activities was only 630,712 because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest.

Business Type Activities

The City's cash balance for business type activities increased \$228,607 from a year ago, from \$544,759 to \$773,366. This is due to there not being any major water and sewer projects done in Fiscal Year 2012. See page 11 for operating receipts and disbursements.

Debt Administration

At June 30, 2012, the City had \$398,030 (Pages 28-29) in bonds and other long-term debt, compared to \$186,646 last year. This increase is due to the TIF Development Agreement the City made with Cory & Melissa Hodapp for the North Ridge Condominiums.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property, excluding agriculture land valuations and before rollback, with the City's corporate limits. The City's outstanding general obligation debt of \$266,398 is significantly below its constitutional debt limit.

Contacting the City's Financial Management

This financial report is designed to provide citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. IF you have questions about this report or need additional financial information, contact Christie Dennis, City Administrator/Clerk, 11 S. Main Street, PO Box 28, Fayette, Iowa.

Basic Financial Statements

City of Fayette

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Oper. Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 303,467	120,875	19,450	-
Public works	240,166	64,937	126,911	-
Health and social services	-	-	-	-
Culture and recreation	90,572	14,186	-	-
Community and economic development	261,379	-	-	-
General government	60,127	-	-	-
Debt service	-	-	-	-
Capital projects	185,333	-	163,973	-
Business type	-	-	-	-
Total governmental activities	1,141,044	199,998	310,334	-
Business type activities:				
Sewer	118,910	259,926	26,876	-
Water	146,979	213,750	-	-
Nonmajor business type funds	26,889	23,364	-	-
Total business type activities	292,778	497,040	26,876	-
Total	\$ 1,433,822	697,038	337,210	-

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Local option sales tax
 Unrestricted interest
 Rents
 Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Expendable:

Streets
 Debt Service
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(163,142)	-	(163,142)
(48,318)	-	(48,318)
-	-	-
(76,386)	-	(76,386)
(261,379)	-	(261,379)
(60,127)	-	(60,127)
-	-	-
(21,360)	-	(21,360)
-	-	-
(630,712)	-	(630,712)
-	141,016	141,016
-	66,771	66,771
-	(3,525)	(3,525)
-	204,262	204,262
(630,712)	204,262	(426,450)
307,565	-	307,565
5,513	-	5,513
94,023	-	94,023
24,132	2,469	26,601
8,498	-	8,498
121,032	26,876	147,908
5,000	(5,000)	-
565,763	24,345	590,108
(64,949)	228,607	163,658
2,091,955	544,759	2,636,714
\$ 2,027,006	773,366	2,800,372
239,891	-	239,891
-	10,898	10,898
137,680	-	137,680
1,649,435	762,468	2,411,903
\$ 2,027,006	773,366	2,800,372

City of Fayette

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2012

	General	Special Revenue Road Use Tax	Nonmajor Governmental	Total
Receipts:				
Property tax	\$ 289,750	-	17,815	307,565
TIF collections	-	-	5,513	5,513
Other city tax	-	-	-	-
Licenses and permits	3,090	-	-	3,090
Use of money and property	17,687	463	-	18,150
Intergovernmental	19,450	126,911	257,996	404,357
Charges for service	131,971	-	64,937	196,908
Special assessments	-	-	-	-
Miscellaneous	43,892	1,092	90,528	135,512
Total receipts	505,840	128,466	436,789	1,071,095
Disbursements:				
Operating:				
Public safety	303,467	-	-	303,467
Public works	-	179,746	60,420	240,166
Health and social services	-	-	-	-
Culture and recreation	90,572	-	-	90,572
Community and economic development	257,130	-	4,249	261,379
General government	60,127	-	-	60,127
Debt service	-	-	-	-
Capital projects	-	-	185,333	185,333
Business Type	-	-	-	-
Total disbursements	711,296	179,746	250,002	1,141,044
Excess of receipts over disbursements	(205,456)	(51,280)	186,787	(69,949)
Other financing sources (uses):				
Operating transfers in	94,321	67,403	23,446	185,170
Operating transfers out	(62,818)	-	(117,352)	(180,170)
Total other financing sources (uses)	31,503	67,403	(93,906)	5,000
Net change in cash balances	(173,953)	16,123	92,881	(64,949)
Cash balances beginning of year	1,844,550	223,768	23,637	2,091,955
Cash balances end of year	\$ 1,670,597	239,891	116,518	2,027,006
Cash Basis Fund Balances				
Restricted For:				
Streets	-	239,891	-	239,891
For Other Purposes	-	-	-	-
Debt Service	-	-	-	-
Unassigned	1,670,597	-	116,518	1,787,115
Total cash basis fund balances	\$ 1,670,597	239,891	116,518	2,027,006

See notes to financial statements

City of Fayette

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2012

Total governmental funds cash balances (page 9) \$ 2,027,006

The city does not have an internal service fund.
Therefore there are no reconciling items.

-

**Cash basis net assets of governmental
activities (page 8)**

\$ 2,027,006

Net change in cash balances (page 9)

\$ (64,949)

The city does not have an internal service fund.
Therefore there are no reconciling items.

-

**Change in cash balance of governmental
activities (page 8)**

\$ (64,949)

See notes to financial statements

City of Fayette

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2012

	Sewer	Water	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 259,926	213,750	23,364	497,040
Use of money and property	1,604	865	-	2,469
Intergovernmental	-	-	26,876	26,876
Total operating receipts	261,530	214,615	50,240	526,385
Operating disbursements:				
Business type activities	118,910	123,263	12,716	254,889
Capital Projects	-	-	14,173	14,173
Debt Service	-	23,716	-	23,716
Total operating disbursements	118,910	146,979	26,889	292,778
Excess (deficiency) of operating receipts over (under) operating disbursements	142,620	67,636	23,351	233,607
Operating transfers out	-	-	(5,000)	(5,000)
Net change in cash balances	142,620	67,636	18,351	228,607
Cash balances beginning of year	525,823	29,628	(10,692)	544,759
Cash balances end of year	\$ 668,443	97,264	7,659	773,366
Cash Basis Fund Balances				
Unrestricted	\$ 668,443	97,264	7,659	773,366
Restricted for Debt Service	-	-	-	-
Total cash basis fund balances	\$ 668,443	97,264	7,659	773,366

City of Fayette

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2012

Total enterprise funds cash balances (page 11)	\$ 773,366
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Cash basis net assets of business type activities (page 8)	\$ 773,366
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Net change in cash balances (page 11)	\$ 228,607
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Change in cash balance of business type activities (page 8)	\$ 228,607
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See notes to financial statements

CITY OF FAYETTE

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Fayette is a political subdivision of the State of Iowa located in Fayette County. It was first incorporated in 1874 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fayette has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

These financial statements present the City of Fayette (the primary government) and the following component unit-the Fayette Fire Department. The component unit is included in the City's reporting entity because of the significance of their operational or financial relationship to the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The City is represented on the Fayette County Solid Waste Management Commission, Fayette County Emergency Management Commission, Fayette County Joint E911 Service Board, Fayette County Economic Development and Upper Explorerland Regional Housing Authority.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds. The General Fund also includes the Bolger Fund which does not meet the definition of Special Revenue and is not restricted to any specific use.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Enterprise Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise Water Fund accounts for the operation and maintenance of the City's water system.

C. Measurement Focus and Basis of Accounting

The City of Fayette maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable-Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted-Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state, or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned-Amounts the Council intends to use for specific purposes.

Unassigned-All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012 the City

exceeded amounts budgeted in the public safety and the debt service programs.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

As of June 30, 2012, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

Interest rate risk-The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days and meet their definition of *Instruments Eligible for Investment*. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of the General Obligation Capital Loan Notes and Revenue Bonds are as follows:

Year Ending June	TIF-Economic Development-2006		TIF-Condo Ridge Development	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	3,177	2,232	-	-
2014	3,371	2,038	22,957	-
2015	3,576	1,833	22,957	-
2016	3,794	1,615	22,957	-
2017	4,025	1,384	22,957	-
2018-2022	18,705	2,932	114,785	-
2023	-	-	22,957	-
	<u>36,648</u>	<u>12,034</u>	<u>229,570</u>	<u>-</u>

Year Ending June	Water Revenue Bonds DW SRF Forgivable		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	17,143	6,582	20,320	8,814
2014	17,992	5,724	44,320	7,762
2015	18,891	4,825	45,424	6,658
2016	19,830	3,880	46,581	5,495
2017	20,831	2,889	47,813	4,273
2018-2022	36,223	2,601	169,713	5,533
2023	-	-	22,957	-
	<u>130,910</u>	<u>26,501</u>	<u>397,128</u>	<u>38,535</u>

TIF-Economic Development Loan:

The City has an inter-fund loan for the "Blessing Addition". The loan is owed by the General Fund to the Bolger Fund. Original amount of loan was \$50,000. Interest rate is 6%.

The City has provided TIF assistance in the form of tax rebates for the Condo Ridge Development. The assistance will be \$22,957 per year for ten years beginning December 1, 2013, if incremental tax is available on that date. There is no interest on this TIF rebate.

Revenue Bonds:

The City has a Revenue Bond payable to Berkadia Commercial Mortgage on a Water Tower.

The Water Revenue Bond was issued in 1978. The City has pledged future water customer revenues, net of certain operating disbursements. The original amount of the bonds was \$400,000. The proceeds of the bonds were used for improvements to the water tower. Interest rate on these bonds is 5%. Final payment is July 1, 2019. Principal and interest is payable annually on July 1st. The City paid \$16,309 in principal and \$7,407 in principal during year ended June 30, 2012. City paid the July 1, 2012 payment in June 2012. Balance at June 30, 2012 was \$130,910.

(4) Pension and Retirement Benefits

Iowa Public Employees Retirement System-

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2012 was \$32,770.

(5) Other Postemployment Benefits (OPEB)

Plan Description-The City pays 75% of the cost of insurance for a family to full time employees. If the full time employee has insurance through a spouse the employee is paid the 75% in the form of wages. Single employees have their insurance paid for and the difference between the single cost and the 75% of family cost is given to the employee in the form of wages. Married employees who have the family plan are responsible for the portion of insurance costs above 75%.

City pays 100% for the Public Works Director due to the number of years of service.

There are seven full time employees. Employees paid \$669 toward the insurance and the City paid \$27,592 for a total cost of \$28,262.

(6) Compensated Absences

City of Fayette employees accumulate a limited amount of earned but unused vacation hours based on the length of employment. There is no carry-over of vacation from one year to the next. It is payable when used and may accumulate to a maximum of one year accumulated vacation hours. Vacation is payable upon resignation, with two weeks advance written notice, or retirement will be paid at regular salary/wage for unused vacation left at time of resignation or retirement.

Full time employees earn sick leave at the rate of 8 hours per month with a total of 96 working hours per year. They may accumulate a maximum of 480 working hours. No sick leave will be paid upon resignation. Upon retirement employees will be paid for their accumulated sick leave up to a maximum of 480 hours at the rate of pay at retirement.

Retirement is defined as age 55 or 30 years with IPERS.

The City's approximate liability for earned vacation payable to employees at June 30, 2012 is \$16,849. The City's approximate liability for sick leave at June 30, 2012 is \$11,001. This liability has been computed based on rates of pay in effect at June 30, 2012.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenues: Local Option	\$ 23,365
Special Revenue: Street-RUT	Special Revenues: Local Option	42,451
Street-RUT	Proprietary: Yard Waste	5,000
Street-RUT	General: General	<u>19,952</u> <u>67,403</u>
General: Bolger	General General	19,420
	Special Revenue: Local Option Tax	28,207
	TIF	5,409
	Debt Service	<u>17,920</u> <u>70,956</u>
Capital Projects: CAT Grant	General: Bolger	<u>23,446</u>
Total Inter-fund Transfers		\$ <u>185,170</u>

(8) Related Party Transactions

The City had no business transactions between the City and City employees during year ended June 30, 2012.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Balance

The Debt Service, Capital Projects-CDBG Housing Grant, and Proprietary Fund-CDBG Sewer Project, and Yard Waste had deficit balances at June 30, 2012. The City will eliminate with the receipt of funds or the transfer of funds.

(11) Litigation

There is no pending litigation pending involving the City of Fayette.

(12) Subsequent Events

The City has considered subsequent events through November 27, 2012, date of audit report, and believe that there are no subsequent events that need to be disclosed.

Other Information

City of Fayette

Budgetary Comparison Schedule
of Receipts, disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net
Receipts:				
Property tax	\$ 307,565	-	-	307,565
Tax increment financing collections	5,513	-	-	5,513
Other city tax	-	-	-	-
Licenses and permits	3,090	-	-	3,090
Use of money and property	18,150	2,469	-	20,619
Intergovernmental	404,357	26,876	-	431,233
Charges for service	196,908	497,040	-	693,948
Special assessments	-	-	-	-
Miscellaneous	135,512	-	-	135,512
Total receipts	1,071,095	526,385	-	1,597,480
Disbursements:				
Public safety	303,467	-	-	303,467
Public works	240,166	-	-	240,166
Health and social services	-	-	-	-
Culture and recreation	90,572	-	-	90,572
Community and economic development	261,379	-	-	261,379
General government	60,127	-	-	60,127
Debt service	-	23,716	-	23,716
Capital projects	185,333	14,173	-	199,506
Business type activities	-	254,889	-	254,889
Total disbursements	1,141,044	292,778	-	1,433,822
Excess of receipts over disbursements	(69,949)	233,607	-	163,658
Other financing sources, net	5,000	(5,000)	-	-
Excess of receipts and other financing sources over disbursements and other financing uses	(64,949)	228,607	-	163,658
Balances beginning of year	2,091,955	544,759	-	2,636,714
Balances end of year	\$ 2,027,006	773,366	-	2,800,372

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
294,697	294,697	12,868
5,500	5,500	13
104,006	104,006	(104,006)
2,065	2,065	1,025
420,038	420,038	(399,419)
858,609	882,055	(450,822)
1,632,385	1,002,265	(308,317)
-	-	-
292,146	292,146	(156,634)
3,609,446	3,002,772	(1,405,292)
395,479	395,479	92,012
561,159	611,279	371,113
-	-	-
116,296	92,850	2,278
255,192	155,192	(106,187)
62,922	62,922	2,795
17,920	17,920	(5,796)
205,500	205,500	5,994
1,871,175	1,321,175	1,066,286
3,485,643	2,862,317	1,428,495
123,803	140,455	23,203
-	-	-
123,803	140,455	23,203
1,371,985	1,371,985	1,264,729
1,495,788	1,512,440	1,287,932

CITY OF FAYETTE

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended and decreased budgeted receipts by \$606,674 and decreased budgeted disbursements by \$623,326. The amendment was partially to reflect the change in schedule on capital projects.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety and the debt service functions.

Supplementary Information

City of Fayette

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2012

	Debt Service	Ttl NMJR Special Revenue	TTL NMJR Capital Projects	Total
Operating Receipts:				
Property tax	\$ 17,815	-	-	17,815
Tax increment financing collections		5,513	-	5,513
Charges for service	-	64,937	-	64,937
Intergovernmental	-	94,023	163,973	257,996
Miscellaneous	-	-	90,528	90,528
Total operating receipts	17,815	164,473	254,501	436,789
Operating Disbursements:				
Public works	-	60,420	-	60,420
Community & economic development	-	4,249	-	4,249
Capital Projects	-	-	185,333	185,333
Total operating disbursements	-	64,669	185,333	250,002
Excess (deficiency) of receipts over (under) operating disbursements	17,815	99,804	69,168	186,787
Non-operating receipts(disbursements): Debt Service	-	-	-	-
Excess of receipts over disbursements	17,815	99,804	69,168	186,787
Operating transfers in	-	-	23,446	23,446
Operating transfers out	(17,920)	(99,432)	-	(117,352)
Net change in cash balances	(105)	372	92,614	92,881
Cash balances beginning of year	(807)	10,727	13,717	23,637
Cash balances end of year	\$ (912)	11,099	106,331	116,518
Cash Basis Fund Balances				
Unrestricted	\$ (912)	-	-	(912)
Restricted for Debt Service	-	11,099	106,331	117,430
Total cash basis fund balances	\$ (912)	11,099	106,331	116,518

See accompanying independent auditor's report

City of Fayette

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds-Special Revenue

As of and for the year ended June 30, 2012

	Landfill- Recycling	TIF	Local Option Tax	Total
Receipts:				
Tax increment financing collections	\$ -	5,513	-	5,513
Intergovernmental	-	-	94,023	94,023
Charges for Services	64,937	-	-	64,937
Total receipts	64,937	5,513	94,023	164,473
Disbursements:				
Operating:				
Public Works	60,420	-	-	60,420
Community and Economic Development	-	4,249	-	4,249
Total disbursements	60,420	4,249	-	64,669
Excess (deficiency) of receipts over (under) disbursements	4,517	1,264	94,023	99,804
Other financing sources:				
Operating transfers in	-	-	-	-
Operating transfers out	-	(5,409)	(94,023)	(99,432)
Net change in cash balances	4,517	(4,145)	-	372
Cash balances beginning of year	(1,651)	12,378	-	10,727
Cash balances end of year	\$ 2,866	8,233	-	11,099
Cash Basis Fund Balances				
Restricted for Other Purposes	\$ -	-	-	-
Unassigned	2,866	8,233	-	11,099
	\$ 2,866	8,233	-	11,099

See accompanying independent auditor's report

City of Fayette

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds-Capital Projects

As of and for the year ended June 30, 2012

	Capital Projects				
	CDBG Housing Grant	CDBG Façade Grant	Rec Trail	CAT Grant	Total
Receipts:					
Intergovernmental	\$ 152,160	-	-	11,813	163,973
Miscellaneous	9,052	79,626	1,850	-	90,528
Total receipts	161,212	79,626	1,850	11,813	254,501
Disbursements:					
Operating:					
Capital Projects	121,818	1,555	57,960	4,000	185,333
Total disbursements	121,818	1,555	57,960	4,000	185,333
Excess (deficiency) of receipts over (under) disbursements	39,394	78,071	(56,110)	7,813	69,168
Other financing sources:					
Operating transfers in	-	-	-	23,446	23,446
Operating transfers out	-	-	-	-	-
Net change in cash balances	39,394	78,071	(56,110)	31,259	92,614
Cash balances beginning of year	(59,644)	-	104,620	(31,259)	13,717
Cash balances end of year	\$ (20,250)	78,071	48,510	-	106,331
Cash Basis Fund Balances					
Unassigned	\$ (20,250)	78,071	48,510	-	106,331
Total cash basis fund balances	\$ (20,250)	78,071	48,510	-	106,331

See accompanying independent auditor's report

City of Fayette

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2012

	Water Reserve	Water Deposits	CDBG Sewer Project	Yard Waste	Sewer Retirement	Total
Operating Receipts:						
Charges for service	\$ -	10,623	-	12,741	-	23,364
Intergovernmental			26,876			26,876
Total operating receipts	-	10,623	26,876	12,741	-	50,240
Operating Disbursements:						
Business type activities	-	7,890	-	4,826	-	12,716
Capital Projects	-	-	14,173	-	-	14,173
Total operating disbursements	-	7,890	14,173	4,826	-	26,889
Excess (deficiency) of receipts over (under) operating disbursements	-	2,733	12,703	7,915	-	23,351
Non-operating receipts(disbursements): Debt Service	-	-	-	-	-	-
Excess of receipts over disbursements	-	2,733	12,703	7,915	-	23,351
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	(5,000)	-	(5,000)
Net change in cash balances	-	2,733	12,703	2,915	-	18,351
Cash balances beginning of year	25,000	8,165	(85,458)	(4,386)	45,987	(10,692)
Cash balances end of year	\$ 25,000	10,898	(72,755)	(1,471)	45,987	7,659
Cash Basis Fund Balances						
Unrestricted	\$ 25,000	-	(72,755)	(1,471)	45,987	(3,239)
Restricted for Debt Service	-	10,898	-	-	-	10,898
Total cash basis fund balances	\$ 25,000	10,898	(72,755)	(1,471)	45,987	7,659

See accompanying independent auditor's report

CITY OF FAYETTE
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2012

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Urban Renewal Tax Increment Financing (TIF)			
TIF-Economic Development 2006	8/1/2006	6.00%	50,000
TIF-Condo Ridge Development	8/1/2011	0.00%	229,570
 TOTAL URBAN RENEWAL TAX INCREMENT (TIF)			
 Revenue Bonds:			
Water Tower Revenue Bonds	1978	5%	400,000

<u>Balance</u> <u>7/1/2011</u>	<u>Issued</u> <u>During</u> <u>Year</u>	<u>Redeemed</u> <u>During</u> <u>Year</u>	<u>Balance</u> <u>6/30/2012</u>	<u>Interest</u> <u>Paid</u>	<u>Interest</u> <u>Due and</u> <u>Unpaid</u>
\$ 39,643	-	2,995	36,648	2,414	-
-	229,570	-	229,750	-	-
\$ 39,643	229,570	2,995	266,398	2,414	-
\$ 147,941	-	16,309	131,632	7,407	-

CITY OF FAYETTE
BOND and NOTE MATURITY
JUNE 30, 2012

TIF-Economic Development 2006			TIF-Economic Development 2006		
Year Ending June 30,	Interest Rates	Amount	Year Ending June 30,	Interest Rates	Amount
2013	6.00%	3,177	2013	0.00%	-
2014	6.00%	3,371	2014	0.00%	22,957
2015	6.00%	3,576	2015	0.00%	22,957
2016	6.00%	3,794	2016	0.00%	22,957
2017	6.00%	4,025	2017	0.00%	22,957
2018	6.00%	4,270	2018	0.00%	22,957
2019	6.00%	4,530	2019	0.00%	22,957
2020	6.00%	4,806	2020	0.00%	22,957
2021	6.00%	5,099	2021	0.00%	22,957
2022			2022	0.00%	22,957
			2023	0.00%	22,957
		<u>36,648</u>			<u>229,570</u>

Revenue Note Water Tower Revenue Note Issued 1978		
Year Ending June 30,	Interest Rates	Amount
2013	5.00%	17,143
2014	5.00%	17,992
2015	5.00%	18,891
2016	5.00%	19,830
2017	5.00%	20,831
2018	5.00%	21,869
2019	5.00%	15,076
		<u>131,632</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fayette, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 27, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Fayette is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Fayette's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fayette's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fayette's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be material weaknesses.

A deficiency in internal control is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as II-A-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet I important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-12, II-C-12, II-D-12, II-E-12, and II-F-12 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fayette's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the city's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fayette's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit Hudson's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fayette and other parties to whom Hudson may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fayette during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

November 27, 2012

CITY OF FAYETTE

Schedule of Findings and Questioned Costs

June 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. City of Fayette is a small city with an office staff consisting of one full time and one part time employee. Both employees can have custody of cash before depositing.

Recommendation-We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response-We believe that we are close to the maximum segregation of duties possible with the limited number of employees the City has. We will review and investigate possibilities to improve the segregation of duties.

Conclusion-Response accepted.

CITY OF FAYETTE

Schedule of Findings and Questioned Costs

June 30, 2012

- II-B-12 Preparation of Financial Statements – The City of Fayette, Iowa prepares financial statements, but does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Response – The City Council and management feel that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to their issuance.

Conclusion – Response accepted.

- II-C-12 Certifying Debt – The City has certified the collection of property taxes on debt which is not debt within the meaning of general obligation debt. The City has collected property taxes on a 2004 transaction in which the City borrowed \$70,000 from itself, in other words borrowing between funds, to purchase an ambulance. During the current year the City certified \$155,000 for the purchase of a tanker for the Fire Department, where the dollars were also borrowed internally.

Recommendation – The City should acquire debt from outside sources to satisfy the definition of General Obligation debt.

Response – The City is in the process of acquiring debt from outside sources to satisfy the definition of General Obligation debt.

Conclusion – Response accepted.

- II-D-12 Vehicle Use Policy – The City does not have a written Vehicle Use Policy. Upon investigation, it appears that some employees are allowed to take vehicles home when they are on call while other employees are not allowed to take vehicles home when they are on call.

Recommendation - The City should define which employees are allowed to take vehicles home because they are required to be on call. The policy also needs to state that City vehicles are not to be driven for personal use. We recommend that the City require a monthly report on vehicle mileage for those employees allowed to drive City vehicles home. We further recommend that the report show the beginning and ending odometer readings and employees should list all City business related trips out of the area.

Response-The City has approved an updated Police Department Vehicle Use Policy which states that vehicles are not to be used for personal use. In addition officers are now required to do a monthly report on vehicle mileage.

CITY OF FAYETTE

Schedule of Findings and Questioned Costs

June 30, 2012

Conclusion-Response accepted.

II-E-12 Time Sheet Approval – There is no system for approval of time sheets for employees.

Recommendation– We realize that some employees are salaried and are paid the same each pay period, but it is our recommendation that the City should have someone other than the employee review time sheets for any irregularities. If any issues were to occur, it would be best to resolve them as soon as possible rather than some future period.

Response-The City Administrator/Clerk now reviews the time sheets for accuracy and approves them.

Conclusion-Response accepted.

II-F-12 Complete and Accurate Log for Police – The City per Resolution #2012-08 required the Police Chief to maintain a complete and accurate log. We were not able to obtain such a log during the audit. In addition, per the job description the Chief of Police is required to make quarterly and yearly reports, which are to include mileage logs. No mileage logs are noted on any reports.

Recommendation – We recommend that the council review the resolution and job description for the Chief of Police and either change or enforce them. If the council decides to enforce them we would recommend that the monthly report show hours, mileage, fuel used, and calls made.

Response-The City has implemented the practice for the Police Chief to submit a monthly log showing the mileage for both police department vehicles. This report also lists the number/type of calls, warnings, tickets and violations and is given to the Mayor and each council member. In addition, the Chief should ask for approval before taking the vehicle out of the county.

Conclusion-Response accepted.

II-G-12 Mileage Reimbursement-On March 21, 2011 the City passed Resolution # 2011-06 making the reimbursement for mileage \$.585 per mile or the established IRS rate, to take effect July 1, 2011. At the time the rate was \$.51 per mile and the IRS raised that amount to \$.555 after June 30, 2011. That rate was still in effect for the audit year ended June 30, 2012. The City reimbursed at the \$.585 rate. The excess of amount reimbursed and the allowable federal rate is taxable to the individual receiving the reimbursement and should be included on their W-2.

Recommendation-The City should pass a resolution to reduce the mileage reimbursement rate to no more than the IRS rate allowed.

Response-The City has updated the Claim Voucher used by employees to document their travel using the IRS approved rate.

Conclusion-Response accepted.

CITY OF FAYETTE

Schedule of Findings and Questioned Costs

June 30, 2012

Part III: Other Findings Related to Statutory Reporting:

- III-A-12 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2012. In addition the City had funds at a financial institution that was not named on the depository resolution.

Recommendation-We recommend that the City increase the deposit limit to a sufficient amount so it will not be exceeded in the future. In addition the resolution needs to include all financial institutions where the City has funds deposited.

Response-We will update the depository resolution.

Conclusion-Response accepted.

- III-B-12 Certified Budget – City disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety and the debt service programs. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation-The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response-The budget will be amended in the future, if applicable.

Conclusion-Response accepted.

- III-C-12 Questionable Disbursements – We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

- III-D-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- III-E-12 Business Transactions – No business transactions between the City and City officials or employees were noted.

- III-F-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF FAYETTE

Schedule of Findings and Questioned Costs

June 30, 2012

- III-G-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-H-12 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- III-I-12 Certify Taxes on Interfund Debt-The City has certified and is collecting property taxes for Inter-Fund loans used to purchase an ambulance and a tanker. Per Iowa Code 384.4 Inter-Fund loans are not considered debt and therefore the City cannot certify and collect property taxes on these loans.
- III-J-12 Separately Maintained Records-The Library and Ambulance each maintain a checkbook that is not recorded on the City's books. Chapter 384.20 of the Code of Iowa states in part "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." The transactions have been included in these financial statements.
- Recommendation-The City should include all separately maintained financial activity of the Library and the Ambulance on the City books.
- Response-We will ask for the accounting of these transactions on a monthly basis in order to record them on the City's books.
- Conclusion-Response accepted.

CITY OF FAYETTE

Staff

This audit was performed by:

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